

# HOUSE BILL REPORT

## ESHB 2088

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### As Amended by the Senate

**Title:** An act relating to creating the opportunity scholarship board to assist middle-income students and invest in high employer demand programs.

**Brief Description:** Creating the opportunity scholarship board to assist middle-income students and invest in high employer demand programs.

**Sponsors:** House Committee on Ways & Means (originally sponsored by Representatives Probst, Haler, Frockt, Zeiger, Tharinger, Asay, Orwall, Armstrong, Carlyle, Maxwell, Springer, Kenney, Seaquist, Finn, Haigh, Dammeier, Smith, Goodman, Lytton, Stanford, Dahlquist, Ladenburg, Wylie and Rivers).

### Brief History:

#### Committee Activity:

Ways & Means: 5/11/11, 5/17/11 [DPS].

#### First Special Session

#### Floor Activity:

Passed House: 5/17/11, 84-8.

Senate Amended.

Passed Senate: 5/25/11, 43-2.

### Brief Summary of Engrossed Substitute Bill

- Creates the Opportunity Scholarship Program and the Opportunity Expansion Program to mitigate the impact of tuition increases, increase the number of baccalaureate degrees in high employer demand and other programs, and invest in programs and students to meet market demand fields of study while filling middle-income jobs with a sufficient supply of skilled workers.
- Creates the Opportunity Scholarship Board to identify eligible education and training programs for purposes of the opportunity scholarship, select institutions of higher education to receive opportunity expansion awards, and make recommendations with respect to funding sources for opportunity expansion awards.

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### HOUSE COMMITTEE ON WAYS & MEANS

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 23 members: Representatives Hunter, Chair; Darneille, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Carlyle, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Ross, Schmick, Seaquist, Springer, Sullivan and Wilcox.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Hasegawa, Vice Chair; Orcutt, Assistant Ranking Minority Member; Chandler.

**Staff:** Trista Zugel (786-7157).

### **Background:**

There are various kinds of student financial aid; some is private, and some is supported by the state, such as the State Need Grant (SNG). The SNG program helps the state's lowest-income undergraduate students pursue education. Students can use the grants at eligible institutions (public two- and four-year colleges and universities, and many accredited independent colleges, universities, and career schools) in Washington. Grants are awarded to individuals with family income up to 70 percent of the median family income.

The Legislature has created public-private partnership scholarship programs in the past. As an example, the GET Ready for Math and Science Program was authorized under RCW 28B.105. Per this statute, the Higher Education Coordinating Board contracted with a program administrator, and the administrator solicited funds from private contributors. The state then matched those contributions and the administrator awarded conditional math and science focused scholarships.

### **Summary of Engrossed Substitute Bill:**

The Opportunity Scholarship and Opportunity Expansion programs are created to mitigate the impact of tuition increases, increase the number of baccalaureate degrees in high employer demand and other programs, and invest in programs and students to meet labor market demands. The scholarships are funded by a combination of private and state moneys. The expansion awards are funded with voluntary contributions of high technology research and development tax credits.

#### Opportunity Scholarship Board.

These two programs are overseen by the Opportunity Scholarship Board (Board), made up of seven appointed persons. One person is appointed by the Speaker of the House of Representatives, one by the President of the Senate, and five by the Governor. Four of the persons appointed by the Governor are to be selected from a list of nominees provided by the private sector donors to the Opportunity Scholarship and Opportunity Expansion programs. Upon request, the Governor may request an additional list or lists. The Board will identify eligible education and training programs for purposes of the opportunity scholarship, select institutions of higher education to receive opportunity expansion awards, and make recommendations with respect to funding sources for opportunity expansion awards. The Board's oversight and guidance must be consistent with legislative priorities.

#### Program Administrator.

The Higher Education Coordinating Board (HECB), or its successor, contracts with a program administrator, defined as a college scholarship organization that is a private nonprofit entity with expertise in managing scholarships and college advising. The program administrator sets up and manages the scholarship and endowment accounts, staffs the Board and administers the Opportunity Scholarship Program. The program administrator is paid an administrative fee as determined by the Board.

#### Opportunity Scholarships.

Scholarship recipients must: (1) be accepted into a high employer demand program, deemed an eligible education program by the Board; (2) declare an intention to obtain a baccalaureate degree (whether starting at two- or four-year school); (3) have a family income at or below 125 percent of the median family income; and (4) have received their high school diploma or General Educational Development (GED) in Washington. Generally, the annual amount of a scholarship is \$1,000 or the dollar difference between tuition fees charged in the 2008-09 academic year and the academic year for which a scholarship is being distributed, but the amount can be an amount necessary to cover all eligible expenses, as determined by the administrator.

Opportunity scholarships are issued from one of two accounts set up and managed by the program administrator, either the scholarship account or the endowment account. These scholarships are funded by a combination of private contributions and state match moneys.

At least 50 percent of all private contributions must be deposited into the scholarship account until total receipts in that account reach \$20 million, after which the Board determines the distribution between scholarship and endowment accounts, carefully balancing the need for a long-term funding mechanism and short-term needs of students and families.

State match, which must be appropriated by the Legislature, is earned for private contributions made after the effective date and paid beginning the later of January 1, 2014, or the first year with state revenues 10 percent higher than those received in fiscal year 2008. These state match payments are capped at \$50 million annually.

Scholarships may be issued from principal and earnings in the scholarship account, and disbursement may commence in December 2011 as long as at least \$5 million in state match has been received in the Opportunity Scholarship Account.

By contrast, the principal in the endowment account may not be invaded. Additionally, scholarships may be issued from the endowment account only after: state match has been paid to both the scholarship account and the endowment account; state appropriations to the State Need Grant (SNG) meet or exceed such appropriations made in 2011-13; and eligibility for the SNG is maintained at a minimum of 70 percent of the median family income. Additionally, progress must have been made toward reaching global challenge state funding goals, meaning that the state must demonstrate progress toward the goal of total per-student funding levels, from state appropriations plus tuition of at least the 60th percentile of total per-student funding at similar public institutions of higher education in Washington's global

challenge states. Washington's global challenge states are California, Colorado, Maryland, New Jersey, Connecticut, Virginia, Minnesota, and North Carolina.

Opportunity Expansion Program.

Opportunity expansion moneys will be distributed to public institutions of higher education that propose programs designed to increase the number of baccalaureate degrees produced in high employer demand and other programs of study. These programs must have a strong emphasis on serving students who received their high school diploma or GED in Washington or are adult Washington residents who are returning to school. This program will initially be funded through voluntary contributions of the existing high tech research and development (R&D) tax credits. The Department of Revenue (DOR) reports the amount contributed to the State Treasurer and the Legislature appropriates the funds.

Reporting Requirements.

The Office of Financial Management must report annually, by December 1, regarding the percentage of Washington households with incomes in the middle-income bracket or higher. The HECB must report regarding the increase in the number of degrees in high employer demand or other programs of study over the average of the preceding 10 academic years. The Workforce Training and Education Board must include in its comprehensive plan specific strategies to reach the goal of increasing the percentage of Washington households living in the "middle-income bracket" or higher. The DOR must report to the State Treasurer on the amount of R&D tax credits voluntarily contributed to the Opportunity Expansion Program.

In 2018 the Joint Legislative Audit and Review Committee must evaluate and report upon the Opportunity Scholarship and Expansion programs.

**EFFECT OF SENATE AMENDMENT(S):**

The Senate Amendment: (1) changes the method of appointing two of the members to the Opportunity Scholarship Board so that, rather than each appointing one person themselves, the Speaker of the House and the President of the Senate provide the Governor with a list of nominees for appointment. The Governor selects one person from each of these lists; and (2) makes a technical change to remove two references to "opportunity awards" that were inadvertently left out when the sections that would have changed the name of the State Need Grant to "opportunity award" were taken out in the House.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:**

(In support) This bill is an innovative answer to the problem caused by budget cuts in the higher education arena. House Bill 1795 has addressed concerns that quality might suffer with the cuts. This bill addresses affordability concerns, and the danger of pricing middle-

income and some low-income students out of higher education. The bill offers a new private-public partnership. Many companies in the state have stepped up to make offers of major monetary contributions. Originally, the talk was of an endowment to fund future scholarships. This bill includes an endowment plus scholarships that will be immediately available. In House Bill 1666, a state tax credit was included for private contributions. That is replaced in this bill with the requirement that the state match private contributions in the future. While the requirement that the state match contributions up to \$50 million annually causes some concerns, the removal of this requirement would be a significant change and would affect the ability to secure private funding. The opportunity expansion award will be built into an institution's base budget only if there is an increase in the number of high employer demand degrees. The Legislature may decide that what was once a high employer demand degree no longer meets that criteria and discontinue funding in the base budget. The State Need Grant will remain the same as it is today except that it will be rebranded as opportunity awards. The opportunity scholarships included in this bill will reach middle-income students up to 125 percent of the median family income. It is very much within the recommendations of the Governor's Higher Education Funding Task Force. The bill creates a new board because the private sector donors want to have some influence. Passage of House Bill 1795 was pleasing. House Bill 2088 will enact the final piece of the Governor's Task Force's recommendations. There is a pressing need for this. The business community wants to meet this need, maintaining the long-term endowment and meeting the short-term need with immediate scholarships. Accountability by the institutions and financial aid for students is key. This bill breaks new ground. It is complicated, and many things still need to be worked out in this year and in future years. Significant new, additional private contributions are expected on top of contributions that the business community makes already. Investment in high employer demand fields is key to Washington's employers. Currently, there are many jobs in the state that are unfilled and cannot be filled by Washington graduates which causes employers to have to look elsewhere. A balance of trust between the public and private partners is key. This is a call to action for the state and the workforce. While House Bill 1795 does include some provisions for financial aid for middle income students, tuition must be over \$15,000 per year before these provisions kick in. So, in reality, that bill really does not provide for middle income students. Students are feeling like they have been mugged and then handed a tin cup to go begging. It is very disheartening. Today's students want to have the opportunities that others have had over the past 50 years. House Bill 2088 is one very small blessing in this session. Thus far, the products of this session will cause students to have to incur tremendous debt. Many are afraid that they will not be able to finish school, or they will have to work two jobs in order to do so. House Bill 2088 is but a tiny scrap, like a bandage on a broken arm. It will not fill the gap. What is needed is at least a splint, and preferably a cast.

(Opposed) None.

**Persons Testifying:** Representative Probst, prime sponsor; Laura Peterson, Boeing Company; Greg Pierce, Microsoft Corporation; Margaret Shepherd, Council of Presidents; Mike Bogatay, Washington Student Association; Mahmoud Hammad, Geoduck Student Union of The Evergreen State College; and Mike Merz, Associated Students of Central Washington University.

**Persons Signed In To Testify But Not Testifying:** None.